EXHIBIT 2

Oracle's Golden Goose, Maintenance Revenue, Contains Flight Risk

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Oracle (NASDAQ:ORCL) Historical Stock Chart
3 Years : December 2008 to December 2011

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To understand why Oracle Corp.'s (ORCL) business of selling long-term maintenance contracts may face pressure in the future, consider the decision Santa Fe Natural Tobacco Co. recently made.

Rusty Gaston, the chief information officer of the Santa Fe, N.M.-based unit of Reynolds American Inc. (RAI), switched the company's service contract for Oracle software to Rimini Street, a third-party support company that says it charges half of what Oracle does.

"We were paying higher fees," Gaston said of the Oracle contract. "And getting no more for it."

How many of Oracle's customers follow suit is an open question for the Redwood City, Calif.-based company, which garnered roughly half of its $22.4 billion in 2008 sales from highly profitable maintenance revenue.

Oracle's maintenance revenue stream is likely to be resilient in the short term. The company's databases, accounting and human resources software are used around the world, and many of Oracle's customers depend on the company's support. But the economic downturn might prompt some cost-conscious customers to look for alternative support services.

To be sure, Oracle has weathered recessions in the past, and the company's maintenance contracts have a very high renewal rate. In addition, analyst Peter Goldmacher of Cowen & Co. said canceling Oracle maintenance contracts is "foolish" because Oracle provides service others can't match.

Still, evidence suggests Oracle customers want changes to their maintenance contracts. Some are skirting the issue by moving to lower-cost, Web-based software tools, such as those from competitor Salesforce.com Inc. (CRM), which said last month that it had poached customers, like Emc Corp. (EMC), from Oracle.

An Oracle spokeswoman declined to comment for this article, saying the company was in a quiet period ahead of its earnings. For the fiscal third quarter, analysts expect Oracle to post a 7% rise in per-share earnings to 32 cents when when it reports March 18, and Citigroup sees maintenance fees growing 8%.

Investors love Oracle's maintenance and service contracts, which generate margins of roughly 85%, according to analysts. Oracle charges a fixed 22% of the price of a software package, which can cost hundreds of thousands of dollars, for maintenance.

The margins and recurring nature of Oracle's maintenance contracts have helped the company's shares outperform its rivals - Walldorf, Germany-based Sap AG (SAP), which faces similar pressures, and Redmond, Wash.-based Microsoft Corp. (MSFT) - over the past year. Oracle shares, which closed Tuesday at $15.09, have fallen a relatively mild 24% compared with SAP's 33% drop and Microsoft's 45% fall.

Critics say Oracle needs to reassess its one-size-fits-all business model because customers might move away as more outside options become available and as the recession prompts companies to become more vigilant in their spending.

Customer irritation over software companies' maintenance pricing policies began last year, when SAP customers protested a rate hike. It soon spread to other companies.

Exhibit
Phillips 6
Eileen Mulvenna 12-7-11

In January, trade magazine Information Week published an open letter by its editorial director to Oracle Chief Executive Larry Ellison that underscored the building frustration and requested changes to Oracle's single-tier pricing policy.

Even Oracle, in its 2008 annual report, acknowledges that it faces rising competitive pressures. "Our competitors may offer lower percentage pricing on product updates and support, which could put pressure on us to further discount our new license prices," the company said. Discounting new software licenses would eventually lead to lower support revenue, analysts said.

Jefferies & Co. said recently it expects maintenance revenue to slow as license sales fall off. "At the trough, we expect support revenues to flatten to very low single digit (growth) in FY 10," analyst Ross MacMillan said.

Not everyone agrees, though, that Oracle's model is threatened.

Goldmacher, the Cowen analyst, said customers shouldn't switch to third-party maintenance providers because they will miss out on product upgrades. Relying on software-as-a-service providers, like Salesforce.com, for all of their computing needs, would be imprudent, he said.

"A customer who thinks buying software as a service is a better deal than (Oracle) maintenance is deluding himself," he said.

And Oracle weathered the 2000-01 technology recession without seeing a major decline in its maintenance revenue stream, though sales of new products were hit.

Still, consultants and analysts said the growing list of alternatives, along with severe pressure to cut IT costs, suggests a tipping point is approaching. Besides Rimini Street and Salesforce, new competition is coming from NetSuite Inc. (N), Taleo Corp. (TLEO), Concur Technologies Inc. (CNQR) and privately-held Workday Inc.

"There's going to be a breaking point soon where customers say they're spending too much on maintenance and not getting enough value," said Forrester Research Inc.'s R. Ray Wang. "Investors should take note."

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